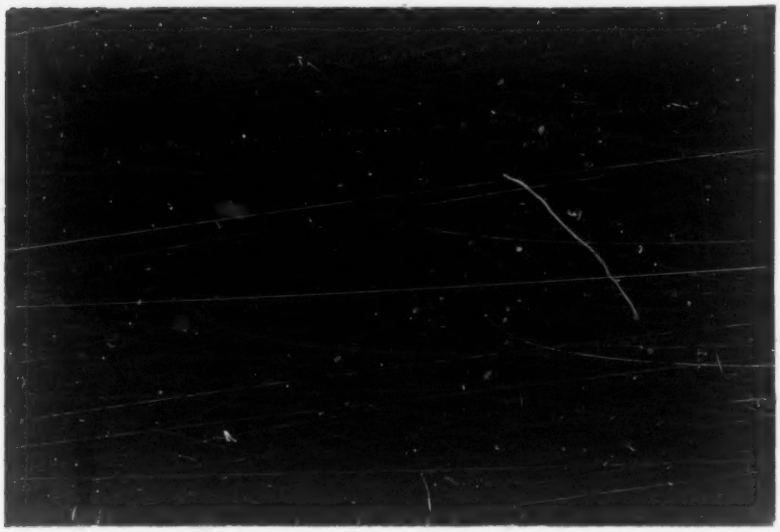
Surveys of Consumer Attitudes



Institute for Social Research

1987 OUTLOOK FOR CONSUMER DEMAND: THE DISCOUNT WAITING GAME

by

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Confidence Maintained Amid Offsetting Trends

In the third quarter 1986 survey, the Index of Consumer Sentiment was 94.8, insignificantly different from the 96.8 recorded one quarter earlier and the 94.3 recorded one year earlier. Since the Spring of 1983, the Index has remained in the relatively narrow range of 91.1 to 99.5, and has averaged 94.6—a level nearly identical with the current reading. This represents the longest sustained period of consumer confidence recorded since the mid 1960s (see Chart 1). In sharp contrast, during the prior three year period, from 1980 to 1983, the Index averaged just 68.3. Over the past quarter century, the Index has averaged 85.0, ranging from a high of 103.4 (1966) to a low of 54.4 (1980).

The continued maintenance of sentiment at high levels, however, has been due to offsetting trends, as shown in Chart 2. As the expansion period has lengthened, expectations for improvement in the economy have dwindled, but have been offset by continued gains in evaluations of current economic conditions.

New Consumer Era

While such a divergence in sentiment trends is not unique to the current expansion, the reasons underlying it are distinctive, and signify an underlying change in the structure of consumer attitudes and expectations. The most remarkable aspect of this long expansion is that consumers' assessments have remained favorable despite the expectation of little if any real improvement in their own financial situation or in the overall economy. In an earlier era, the expectation of a stagnant economy would have been a serious cause for concern, and would have resulted in a sharp loss in consumer confidence. Times

change, and so do people's standards of comparison. The decade of the 1980s began with a much changed perspective when compared with the 1970s. Following a long period of rapid and sustained economic growth in the 1950s and 1960s, the 1970s witnessed a prolonged series of economic adversities, amid widespread uncertainty and confusion. This situation was quite a departure from what many had experienced and had come to expect from the economy. This resulted in steep declines in sentiment and, because of the persistent sense of uncertainty, more volatile changes in attitudes and behavior.

In contrast, the performance of the economy in the 1980s follows a decade when many feared that double digit inflation, unemployment, and interest rates would become a permanent feature of the economy. That these concerns have not been confirmed has lessened these fears, but it has not led consumers to now expect a return to the prior high levels of economic performance. At present, assessments do not depend as much on whether the economy is meeting its potential for growth, as on whether the economy can avoid the adversities of the past decade. Importantly, a renewed sense of stability in the economy—even if stagnant—has helped to insulate consumer attitudes from volatile changes. Slower growth has not yet been viewed as a signal of an impending recession, as was often true in the past; and spending cutbacks are not now planned by consumers as a precaution against possible economic reversals. But because of the small improvements expected in their financial situation, consumers have placed more emphasis on the affordability of purchases, and thus on the availability of discounts on prices and interest rates. Indeed, consumers expect the sluggish economy to keep pressure on sellers to offer purchase incentives on prices and interest rates. Moreover, consumer reactions are likely to insure their continued availability, even though sellers have found these incentive programs to be an expensive means to promote sales. Consumers have now come to expect sellers to offer discounts, and to time their purchases to their availability. The withdrawal of discount programs is now met with sharp declines in sales, both because consumers have sped up purchases to take advantage of discounts, and because consumers

are more willing to postpone purchases as they expect renewed discounting in the future. And thus the waiting game, as both buyers and sellers attempt to gauge the limits of each others willingness to wait.

To develop this overall theme, I will first review trends in personal finances, followed by attitudes toward buying conditions and the economy in general.

Favorable Financial Situation Expected to Remain Unchanged

Evaluations made by American families of their own financial progress have remained largely unchanged, at favorable levels, throughout the past three years (see Chart 3). More families reported that their personal financial situation had improved in the third quarter 1986 survey than at anytime since the early 1970s. Among all families, 47 percent reported that their financial situation had improved, compared with 24 percent that reported that their financial situation had worsened during the past year. This represents a modest improvement over the year earlier, but is only marginally above the two year earlier reading (45 versus 23 percent).

The recent increase in favorable evaluations was based on more frequent income increases, and more importantly, on lower rates of inflation (see Chart 4). Among all families in the third quarter 1986 survey, 35 percent reported increases in family income during the past year, above the 32 percent recorded one year earlier. Complaints about the erosion of purchasing power due to inflation were reported by just 11 percent of all families, the lowest proportion recorded since the mid 1960s.

An improved financial situation during the year ahead was expected by 38 percent of all families in the third quarter 1986 survey, just above the 35 percent recorded one year earlier and the 37 percent recorded two years earlier (see Chart 5). Nearly half (49 percent) of all families in the third quarter survey expected their financial situation to remain unchanged during the year ahead, as has been true for most of the past two years.

Importantly, just 10 percent of all families in the third quarter survey expected their financial situation to worsen, again largely unchanged during the past two years.

Although families somewhat more frequently expected income increases in the third quarter of 1986 than one year earlier (62 versus 56 percent), the size of the expected annual increase has remained small (see Chart 6). Among all families, the median income increase expected was 3.5%, barely above the median expected annual rate of inflation of 3.0%. Given that consumers expected only a 0.5% improvement in real income, it is no surprise that so many thought that their overall financial situation would remain unchanged during the year ahead.

Tax Reform

Recent developments in personal financial expectations have been largely unaffected by the recent tax reform legislation. In the October 1986 survey, consumers were asked about the impact they expected the federal income tax reforms to have on their own personal financial situation and on business conditions in general. When asked about the impact on their own finances, 61 percent of all families thought that the federal tax reforms would leave their financial situation largely unchanged. Among the balance of families, however, a slightly larger proportion expected to be worse off rather than better off financially—21 versus 15 percent (see Table 1). Opinions concerning the impact of tax reform on overall business conditions, in comparison, were more diverse: fewer consumers expected the tax reforms to leave overall business conditions unchanged (43 percent), and more families expected either favorable or unfavorable effects. But like personal finances, the balance of opinion tilted toward unfavorable expectations, by the margin of 28 versus 18 percent.

Interestingly, very few consumers thought that the tax reform would have a favorable impact on both personal and business conditions (5 percent): twice as many expected an unfavorable impact in both areas (12 percent). Overall, 33 percent of all

consumers thought that the tax reform would leave both their own finances and overall business conditions unchanged.

While it is true that families that expected the tax reform to improve economic conditions also gave more favorable responses across a wide array of attitudes and expectations, more families expected unfavorable impacts, and their attitudes and expectations were correspondingly lower than average. Overall, the tax reform has only had a limited impact on consumers, since the most common assessment has been that these reforms would not make much difference on balance.

Income Trends

How do these favorable evaluations by consumers compare with long term developments in their incomes? Various measures of income growth during the past quarter century are reported in Table 2. From 1961 to 1985, total real personal disposable income grew at an average annual rate of 3.4%. During the first half of this period, the growth rate was 4.4%, compared with just 2.4% during the past dozen years. When the accompanying rise in the number of households is taken into account, the income growth rates look even less favorable. During the past dozen years, the net growth in average and median household income has been nearly zero. In addition, if the Consumer Price Index (CPI) rather than the personal consumption deflator is used to adjust incomes, the calculated growth rates are even lower in recent years. Chart 8 shows the trends in total personal income and median household income. The data are shown in the manner usually presented in official statistics: using the PCD adjustment for the total personal income series, and the CPI for the family median income series. Although the size of the estimates differ, the same pattern of change over time was exhibited by each of the series (see Chart 9). (It should be noted that the household estimates of income growth are understated in that the number of persons per household has also declined. Household rather than per capita income trends, however, are of interest here, given our concern for household spending and saving behavior.)

Rather than the level of income, the favorable consumer evaluations are based on the change in income. Although total real personal disposable income grew by just 2.3% in 1985, thus far in 1986 the average quarterly growth rate rose to 3.8%. As shown in Chart 10, the trend in income growth, as measured by the median household income adjusted by the CPI, has been closely matched by the trend in consumer evaluations. Thus, while evaluations of recent financial progress are nearly as favorable as ever, the level of household income, unfortunately, is also only as favorable as past peaks. Although purchase timing decisions have been largely unaffected, growth in the level of consumer purchases has been constrained, as I shall later discuss.

A more complete picture of the financial situation of consumers is given by the balance sheet of assets and debts. As of June 1986, the household sector held over $16 trillion dollars in assets, and owed a total of $2.6 trillion in debts (see Table 3). As shown in Table 4, the total net worth of the household sector rose on average by 3.2% per year during the past quarter century. As with income trends, when net worth is adjusted for the rise in the number of households, the average annual growth rate is about two percentage points lower—which was the average annual increase in the number of households during the past 25 years. Net worth per household reached an all time peak by mid 1986, although the improvement over the prior highs was only marginal (see Chart 11). The trend over time in change in total net worth (adjusted by the PCD) and net worth per household (adjusted by the CPI) have been similar, except for the level difference (see Chart 12).

The growth in asset holding, however, has been outpaced by the growth in debts, yielding smaller asset-debt ratios over time. At mid year 1986, the household sector held $6.36 in total assets for each dollar in debt, which was above the 1985 level of $6.28, but substantially below the $8.73 recorded in 1961—although most of the decline occurred before the mid 1970s (see Table 5). In a similar fashion, the coverage of debts by financial assets fell, as did the coverage of debts by tangible assets.

This reflects the much discussed decline in the personal saving rate during the past several years. In 1985, the personal saving rate fell to 5.1%, the lowest level in more than a quarter century (see Table 6). And it has continued to fall during 1986, with the third quarter rate of just 2.9%. The declines have resulted, not from lower levels of asset accumulation, but from the increased use of credit to finance consumer purchases of homes and vehicles. The favorable recent sales levels are also shown in Table 6. The number of homes and vehicles sold in 1985 was 50% higher than three years earlier, and unit sales have posted further increases in 1986. These improved sales have been propelled by record favorable buying attitudes, the topic to which we now turn.

Interest Rate Reductions Attract Buyers

Vehicles. Favorable attitudes toward buying conditions for vehicles were held by more families in the third quarter of 1986 than at any other time in the history of these surveys—by 76 percent of all families (see Chart 13). Each of the three quarterly surveys conducted thus far in 1986 have, in turn, set new record levels; the total increase over prior peaks, however, has been small—just 4 percentage points. The most frequently cited reason for these very favorable attitudes has been the interest rate reductions offered by vehicle manufactures (see Chart 14). In the third quarter 1986 survey, 59 percent of all families cited reduced interest rates, up from 39 percent one year earlier. In addition, consumers continue to hold positive views of market prices for new vehicles (see Chart 16). Twice as many consumers reported the availability of price discounts than complained about high prices (24 versus 12 percent) in both the second and third quarter 1986 surveys. While reports of the availability of price discounts have been more frequent in the recent past, not since the mid 1960s have complaints about high prices been as low.

The appeal of interest rate discounts has been amply demonstrated in recent months. Sales of new cars and light trucks in the third quarter of 1986 reached a seasonally adjusted annual rate of 18.5 million units, the highest quarterly sales rate on

record. This selling rate was significantly higher that the prior peak of 17.0 million units recorded in the third quarter of 1985, which was also prompted by interest rate discounts. But like last year, when the discount programs end, sales can be expected to decline. At annual rates, vehicle sales declined by 2 million units from the third to the fourth quarter of 1985. This decline in sales was countered by the introduction of new incentive programs by year end 1985. And the renewal of incentive programs can again be expected during the year ahead.

Over the past decade, the cyclical peaks in sales of cars and light trucks have risen from 14.1 million in 1973, to 14.9 million in 1978, and 15.4 million in 1985. The overall increase reflected a small decline in sales of cars, offset by a larger increase in sales of light trucks. For cars, the 1985 figure of 11 million units was below the 1973 peak of 11.4. In contrast, light truck sales rose to an all-time high of 4.4 million in 1985, from 2.7 million in 1973.

Overall, the increase in vehicle sales has been modest, as the 1985 rate was only 1.3 million units above the 1973 level, despite the increase of 19 million households and 22 million employed persons over that same time period. New vehicle sales as proportion of the total number of households fell to 18% in 1985, from 20% in 1978, and 21% at the 1973 peak. As a proportion of all employed persons, new vehicle sales fell to 14% in 1985, from 15% in 1978, and 16% at the 1973 peak. Some of this decline can be attributed to the relatively higher growth rate in single adult households, and the relatively higher employment growth rates in the lower-paid service sectors. More importantly, vehicle prices have risen faster than family income over the past decade. The average price paid for a new car as a proportion of median family income was 44% in 1985, up from 36% in 1978, and 34% in 1973.

Homes. Favorable attitudes toward buying conditions for homes were held by 82 percent of all families in the third quarter 1986 survey, just below the all-time record of 85 percent recorded one quarter earlier (see Chart 17). The very small recent decline was

due to fewer mentions of reduced mortgage interest rates--falling to 78 from 82 percent. Nonetheless, perceptions of mortgage interest rates remain much more favorable than one or two years earlier, and are the dominant factor behind favorable home buying attitudes (see Chart 19). Although perceptions of home prices remained on balance favorable in the most recent survey, they are not as favorable as one year earlier (see Chart 20). Among families with incomes of $30,000 or more, favorable references to current home prices fell from 30 to 24 percent during the past year.

These very favorable home buying attitudes have been reflected in sales. Single family homes were purchased at an annual rate of 4.3 million units in the third quarter of 1986, up from 4.1 million units in the comparable period one year earlier. Most of the improvement during the past year has been in purchases of existing homes, rather than those newly built. Although the current sales rate is still below the peak year of 1978--when 4.8 million homes were purchased--it represents the best performance thus far in the 1980's.

Household durables. Favorable attitudes toward buying conditions for household durables remained at the all-time record level in the third quarter 1986 survey (see Chart 21). In each of the last three quarterly surveys, 77 percent of all families held favorable views of buying conditions for large household durables. As shown in Charts 22-25, these very favorable buying attitudes were based on the availability of price discounts (37 percent) and on lower interest rates (27 percent). Although fewer consumers mentioned price discounts in the third quarter 1986 survey than a year earlier, many more mentioned lower interest rates on these purchases. Among families with incomes of $30,000 or more, the shift was particularly sharp: from the start of 1985 to the third quarter of 1986, reports of price discounts fell from 50 to 37 percent, while reports of lower interest rates rose from 14 to 35 percent. Although favorable attitudes toward buying conditions for household durables were propelled toward record levels by price

discounts, the maintenance of these favorable attitudes at record levels has become increasingly dependent on reductions in interest rates.

Slow Economic Growth Expected to Persist

Fewer families reported hearing of recent favorable developments in the economy in the third quarter 1986 survey than at mid year (33, down from 46 percent). The proportion of families that thought the economy in general had improved during the past year fell to 49 percent in the third quarter from 58 percent one quarter earlier (see Chart 27).

Favorable prospects for economic growth reached peak levels in mid 1983, and subsequently declined at a rapid pace through mid 1985 (see Chart 28). Since mid 1985, however, only minor further declines have been recorded. In each of the last five quarterly surveys, 57 percent of all families expected the performance of the national economy to remain similar to the prior year's. Many fewer consumers expected business conditions to either improve (24 percent) or worsen (16 percent) during the year ahead. Even though only slow economic growth is expected, prospects for the national economy during the year ahead were nonetheless viewed favorably (see Chart 29). Among all families in the third quarter 1986 survey, 55 percent expected good times financially in the economy as a whole, unchanged from one year earlier.

While consumers do not see a recession on the near-term horizon, they do not expect economic growth to continue uninterrupted over the longer term. As shown in Chart 30, more families in the third quarter 1986 survey expected an economic downturn sometime during the next five years or so than expected continuous growth that far into the future (46 versus 37 percent). With this perspective, the expectation of continued slow economic growth during the year ahead may be viewed as a welcome hiatus. Following more than a decade of volatile and uncertain times, it is the absence of such adversity and instability that now forms the threshold for favorable evaluations of the economy.

The major concern with the long-term vitality of the domestic economy involves job prospects. Slow economic growth was expected to result in no further declines in unemployment. Among all families in the third quarter 1986 survey, just 13 percent expected declines in the national unemployment rate during the year ahead, the most bleak outlook in more than three years (see Chart 31). Although few consumers expect any further reductions in the unemployment rate, rather than increase, the majority expected the national unemployment rate to remain unchanged at its current level during the year ahead (55 percent in in the third quarter 1986 survey).

Summary Outlook

How to summarize these finding? Consumer sentiment has remained at very favorable levels for more than three years, the highest sustained period since the 1960s. But in sharp contrast to the optimism of the 1960s, no boom psychology has developed in the 1980s. Concern with the long term vitality of the economy, especially with more limited job prospects in an era of increasing international competition, has caused consumers to adopt a more cautious, and somewhat defensive outlook. Despite these concerns, consumers continue to express their willingness to spend. The response of consumers to the recent interest rate discounts on new vehicle purchases not only attests to their continued willingness to make major purchases, but also to their willingness to commit future income to the repayment of debt. This sense of confidence, however, is limited to the maintenance of the status quo, rather than the expectation of better times to come. Few consumers expect the economic situation to improve during the year ahead, either for themselves or for the country as a whole. Neither do they expect the economic situation to worsen. Most consumers expect an unchanged overall economic situation during the year ahead. And given the length of the current expansion, most consumers have judged this to mean the continuation of good times financially.

Rather than consumer willingness to spend, the constraint lies in the diminished ability of consumers to sustain spending increases above the growth rate in their personal

income during the year ahead, especially given their already extended use of credit. Since consumers only expect small improvements in their financial situation, these survey results point toward diminished growth but still favorable levels of consumer sales during the year ahead. Consumers can be expected to be more cautious in their spending plans. Judgements about the affordability of purchases will increasingly focus attention on the availability and size of discounts on prices and interest rates. And consumers' willingness to time their purchases according to the available discounts will continue to shape aggregate trends. Consumers now expect both the repeated use of discounts by sellers to stimulate sluggish sales, and an economic environment where such slowdowns in sales can be expected. This is the discount waiting game; so let the game begin!

CHART 1

THE INDEX OF CONSUMER SENTIMENT

CHART 2

CURRENT AND EXPECTED COMPONENTS

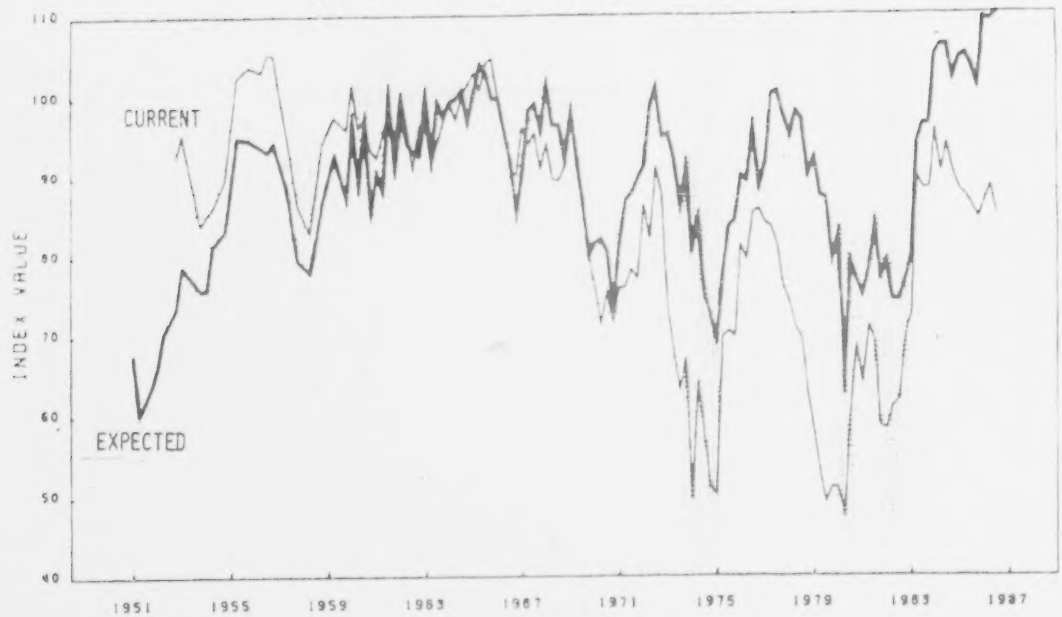
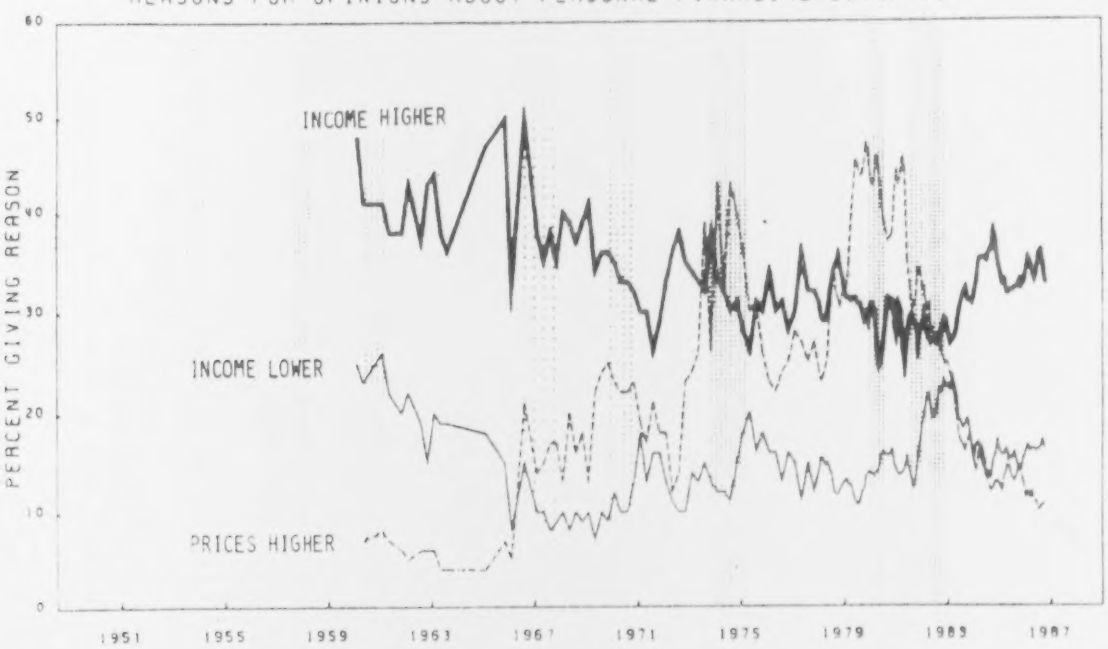


CHART 3

CURRENT FINANCIAL SITUATION COMPARED WITH A YEAR AGO

CHART 4

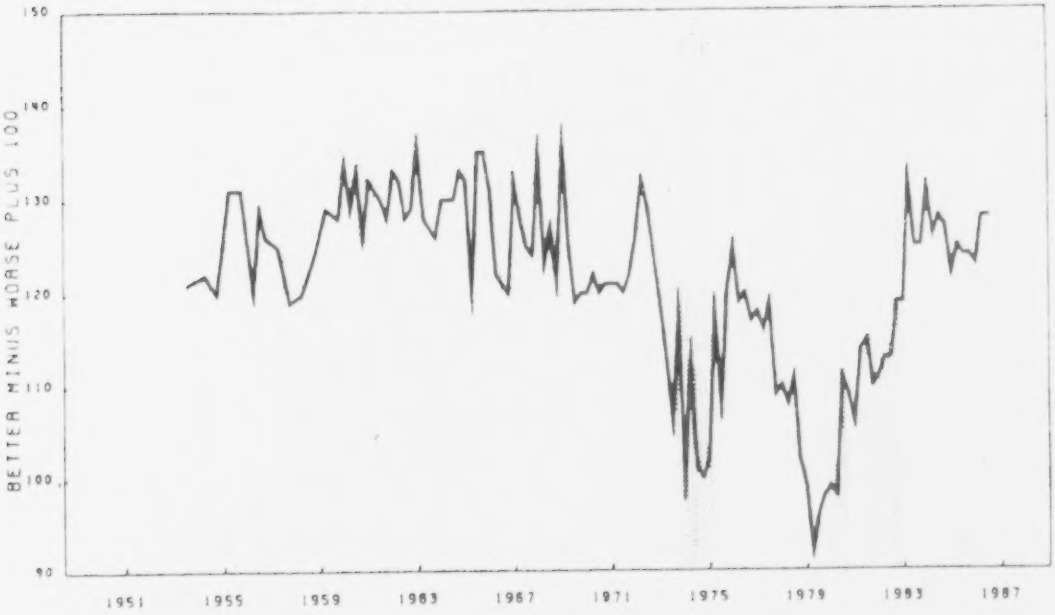
REASONS FOR OPINIONS ABOUT PERSONAL FINANCIAL SITUATION



The questions asked were: "We are interested in how people are getting along financially these days. Would you say that you (and your family living there) are <u>better off</u> or <u>worse off</u> financially than you were <u>a year ago</u>?" and "Why do you say so?"

CHART 5

EXPECTED CHANGE IN FINANCIAL SITUATION



The question was: "Now looking ahead--do you think that a year from now you (and your family living there) will be better off financially, or worse off, or just about the same as now?"

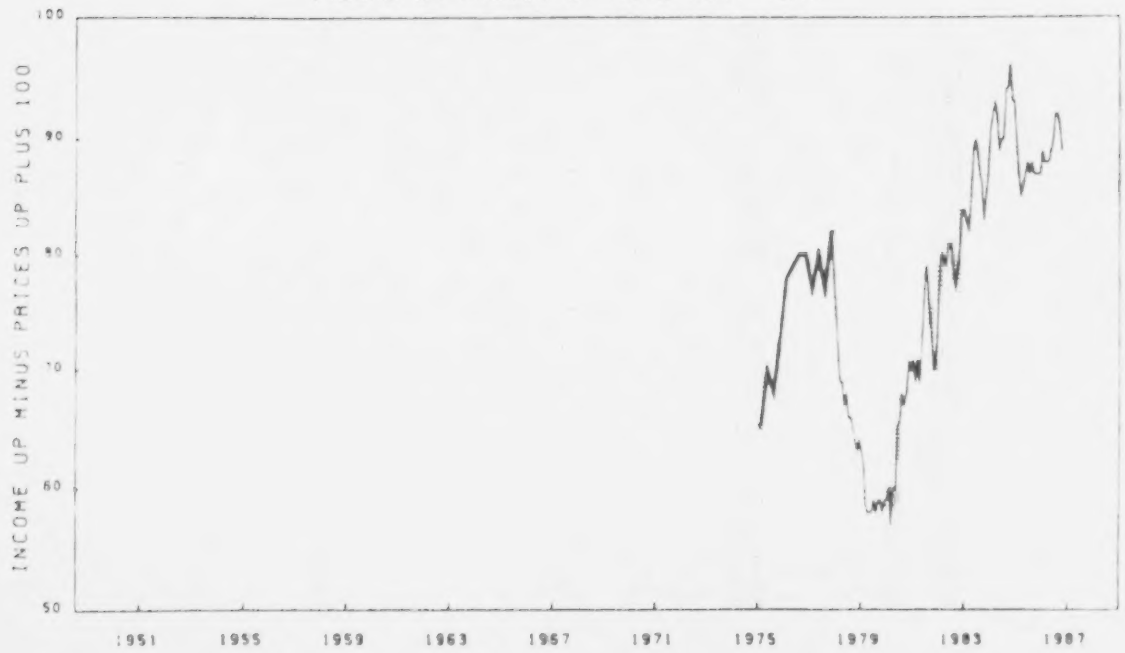
CHART 6

MEDIAN EXPECTED CHANGE IN FAMILY INCOME

The questions were: "During the next 12 months, do you expect your (family) income to be higher or lower than during the past year" and "By about what percent do you expect your (family) income to (increase/decrease) during the next 12 months?"

CHART 7

INCOME OR PRICES UP MORE NEXT YEAR



The question was: "During the next year or two, do you expect that your (family) income will go up more than prices will go up, about the same, or less than prices will go up?"

TABLE 1

EXPECTED IMPACT OF FEDERAL TAX REFORM ON PERSONAL FINANCES AND BUSINESS CONDITIONS
(October 1986)

	Business Conditions	Personal Finances
Better	18%	15%
Same	43	61
Worse	28	21
DK	10	3
NA	1	—
Total	100%	100%
Cases	651	651

The questions were: "The federal income tax reform law will reduce deductions and lower tax rates for most people. During the next year or so, do you think that business conditions in the country as a whole will be better or worse with these changes in the tax laws, or won't these changes make much difference to business conditions?" and "During the next year or so, do you think that you (and your family living there) will be better or worse off financially with these changes in the federal tax laws, or won't these changes make much difference to your financial situation?"

TABLE 2

INCOME TRENDS

	Real Personal Disposable Income				Median Family Income			
	Total		Per Household		PCD Adjusted		CPI Adjusted	
Year	Level	Change	Level	Change	Level	Change	Level	Change
1961	$1.123[a]	2.9%	$20.971[b]	1.5%	$17.231[b]	0.9%	$18.511[b]	1.0%
1962	1.170	4.2	21.368	1.9	17.591	2.1	19.003	2.7
1963	1.207	3.2	21.844	2.2	18.144	3.1	19.691	3.6
1964	1.291	6.9	22.993	5.3	18.786	3.5	20.431	3.8
1965	1.366	5.8	23.778	3.4	19.514	3.9	21.300	4.3
1966	1.431	4.8	24.505	3.1	20.499	5.1	22.390	5.1
1967	1.493	4.3	25.208	2.9	21.070	2.8	22.940	2.5
1968	1.551	3.9	25.510	1.2	21.968	4.3	23.951	4.4
1969	1.600	3.1	25.714	0.8	22.988	4.6	24.835	3.7
1970	1.668	4.3	26.311	2.3	22.999	0.1	24.526	−1.2
1971	1.728	3.6	26.682	1.4	22.888	−0.5	24.523	0.0
1972	1.797	4.0	26.957	1.0	23.801	4.0	25.655	4.6
1973	1.916	6.6	28.077	4.2	24.319	2.2	26.187	2.1
1974	1.897	−1.0	27.150	−3.3	23.556	−3.1	25.250	−3.6
1975	1.932	1.9	27.162	0.0	23.198	−1.5	24.596	−2.6
1976	2.001	3.6	27.461	1.1	23.889	3.0	25.364	3.1
1977	2.067	3.3	27.873	1.5	23.990	0.4	25.495	0.5
1978	2.167	4.9	28.507	2.3	24.651	2.8	26.191	2.4
1979	2.213	2.1	28.612	0.4	25.054	1.6	26.045	−0.2
1980	2.214	0.1	27.412	−4.2	24.268	−3.1	24.630	−5.4
1981	2.249	1.6	27.300	−0.4	23.654	−2.5	23.767	−3.5
1982	2.262	0.6	27.076	−0.8	23.433	−0.9	23.433	−1.4
1983	2.332	3.1	27.788	2.6	23.696	1.1	23.910	2.0
1984	2.471	6.0	28.927	4.1	24.448	3.2	24.568	2.8
1985	2.528	2.3	29.128	0.7	24.787	1.4	24.896	1.3
1986:1[c]	2.581	6.5						
1986:2	2.626	7.1						
1986:3	2.568	−2.2						
Means:								
1961–85		3.4		1.4		1.5		1.3
1961–73		4.4		2.4		2.8		2.8
1974–85		2.4		0.3		0.2		−0.4

[a]Billions of 1982 dollars. PCD adjusted. National Income and Product Accounts.

[b]Thousands of 1982 dollars. Current Population Reports. Bureau of Census.

[c]Quarterly change at annual rates.

CHART 8

TREND IN AGGREGATE PERSONAL INCOME (PCD) AND MEDIAN FAMILY INCOME (CPI)

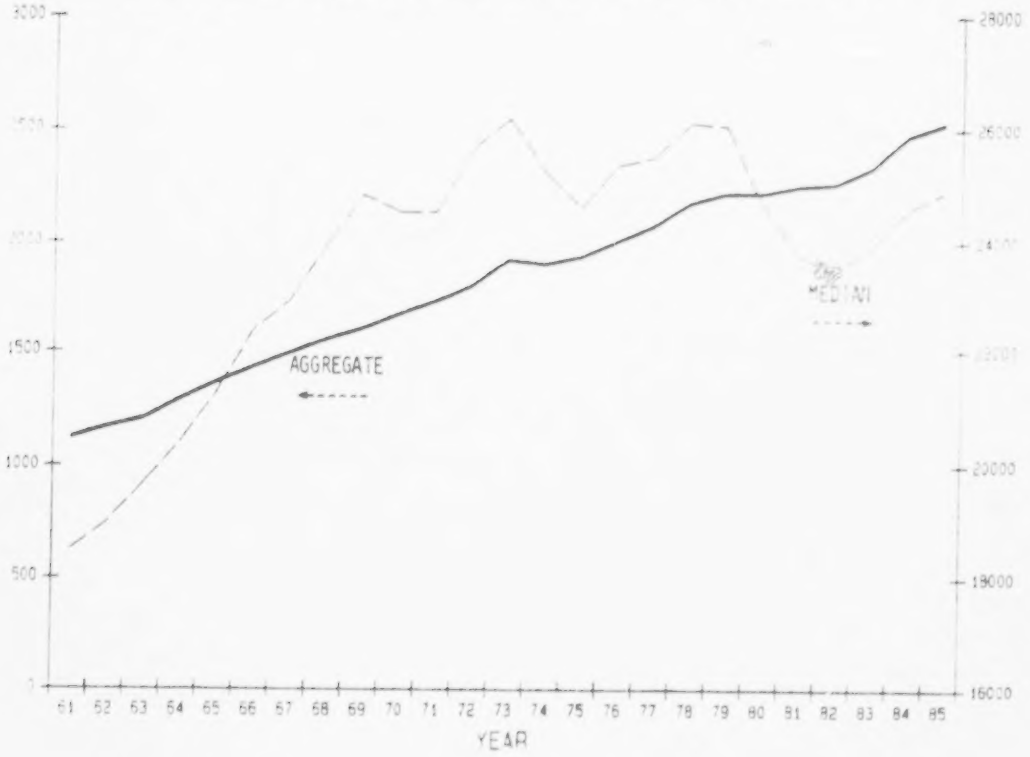


CHART 9

CHANGE IN AGGREGATE PERSONAL INCOME (PCD) AND MEDIAN FAMILY INCOME (CPI)

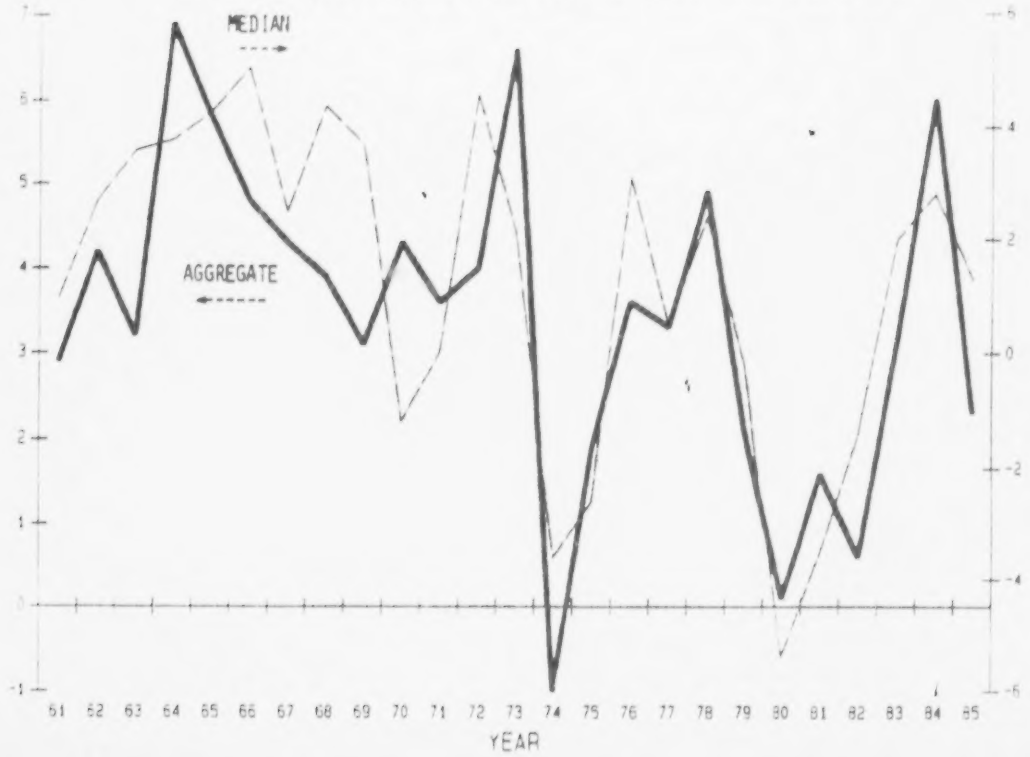


CHART 10

PERSONAL FINANCIAL EVALUATION AND CHANGE IN MEDIAN FAMILY INCOME (CPI)

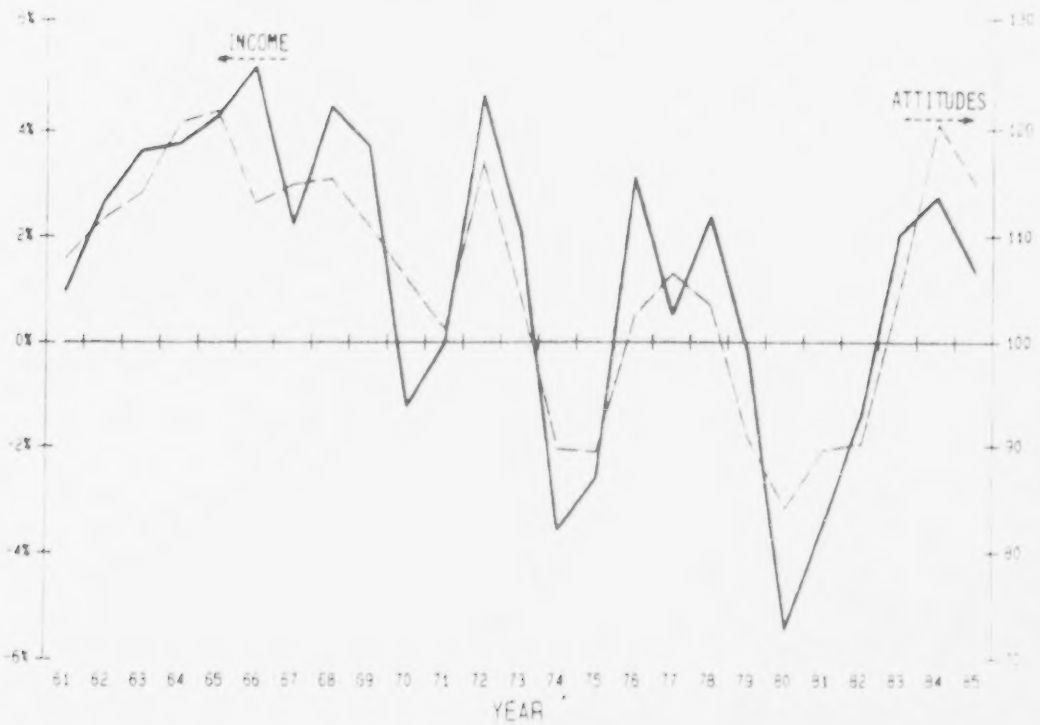


TABLE 3

BALANCE SHEET FOR HOUSEHOLD SECTOR AS OF JUNE 1986

(Billions of Current Dollars)

Total Assets	$16,271	
Tangible Assets	5,282	
Owner-occupied home and land		3,465
Consumer durables		1,437
Other		380
Financial Assets	10,989	
Currency and checkable deposits		458
Savings deposits		2,298
Bills, bonds		1,117
Corporate equities		2,368
Pension and life insurance reserves		2,170
Equity in noncorporate business		2,430
Other financial assets		148
Liabilities	2,557	
Home mortgage		1,523
Consumer credit		693
Other		341
Net worth	13,714	

TABLE 4

HOUSEHOLD NET WORTH

	Net Worth[a]		Net Worth Per Household[b]			
			PCD Adjusted		CPI Adjusted	
Year	Level	Change	Level	Change	Level	Change
1961	$5,719	7.8%	$107	6.3%	$115	6.3%
1962	5,593	−2.2	102	−4.4	110	−3.8
1963	5,895	5.4	107	4.4	116	4.9
1964	6,201	5.2	110	3.5	120	3.8
1965	6,542	5.5	114	3.1	124	3.5
1966	6,548	0.1	112	−1.6	122	−1.5
1967	7,115	8.7	120	7.1	131	6.8
1968	7,636	7.3	126	4.6	137	4.7
1969	7,404	−3.1	119	−5.2	129	−6.1
1970	7,387	−0.2	117	−2.1	124	−3.4
1971	7,777	5.3	120	3.0	129	3.5
1972	8,265	6.3	124	3.3	134	3.9
1973	8,111	−1.9	119	−4.1	128	−4.2
1974	7,685	−5.3	110	−7.4	118	−7.9
1975	8,050	4.8	113	2.9	120	1.8
1976	8,604	6.9	118	4.3	125	4.3
1977	8,901	3.5	120	1.7	128	1.8
1978	9,487	6.6	125	3.9	132	3.5
1979	10,004	5.5	129	3.7	135	1.8
1980	10,422	4.2	129	−0.3	131	−2.6
1981	10,371	−0.5	126	−2.4	127	−3.4
1982	10,240	−1.3	123	−2.6	123	−3.1
1983	10,856	6.0	129	5.5	131	6.5
1984	11,061	1.9	130	0.1	130	−0.3
1985	11,574	4.6	133	3.0	134	2.9
1986	12,090	4.5	137	3.0	138	3.1
Means:						
1961–85		3.2		1.2		1.0
1961–73		3.4		1.4		1.4
1974–85		3.1		1.0		0.5

As of June 30, 1986.

[a]Billions of 1982 dollars, PCD adjusted.

[b]Thousands of 1982 dollars.

Source: FRB Balance Sheets, Flow of Funds Accounts, October 1986.

CHART 11

TOTAL NET WORTH (PCD) AND NET WORTH PER HOUSEHOLD (CPI)

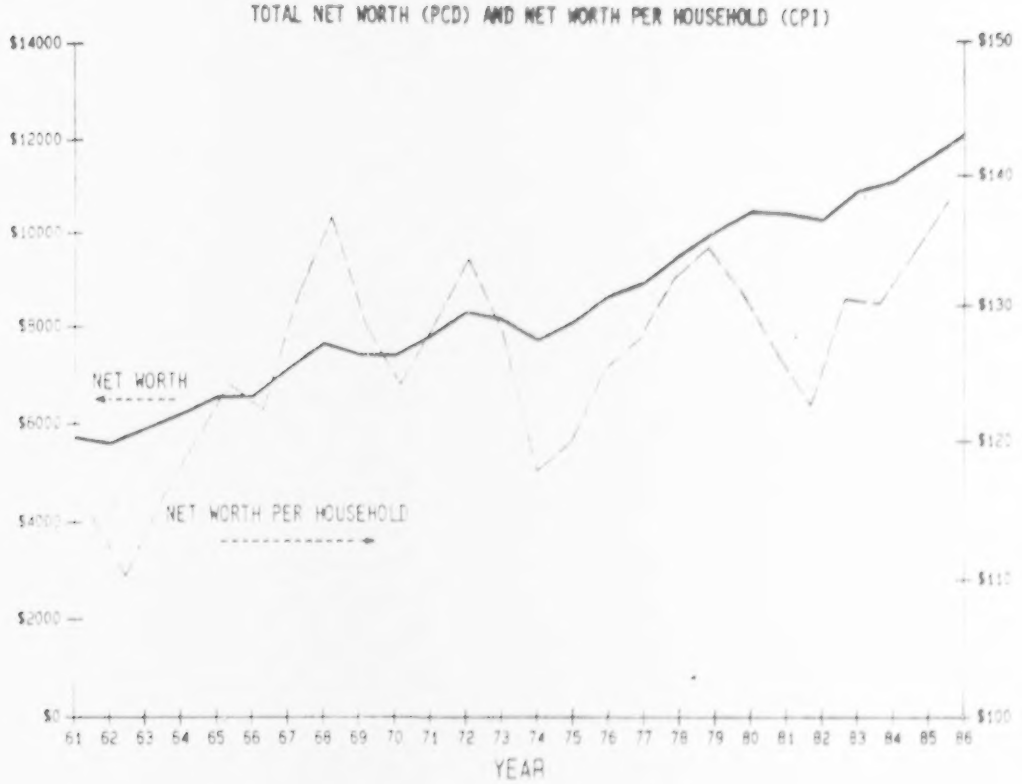


CHART 12

CHANGE IN NET WORTH (PCD) AND NET WORTH PER HOUSEHOLD (CPI)

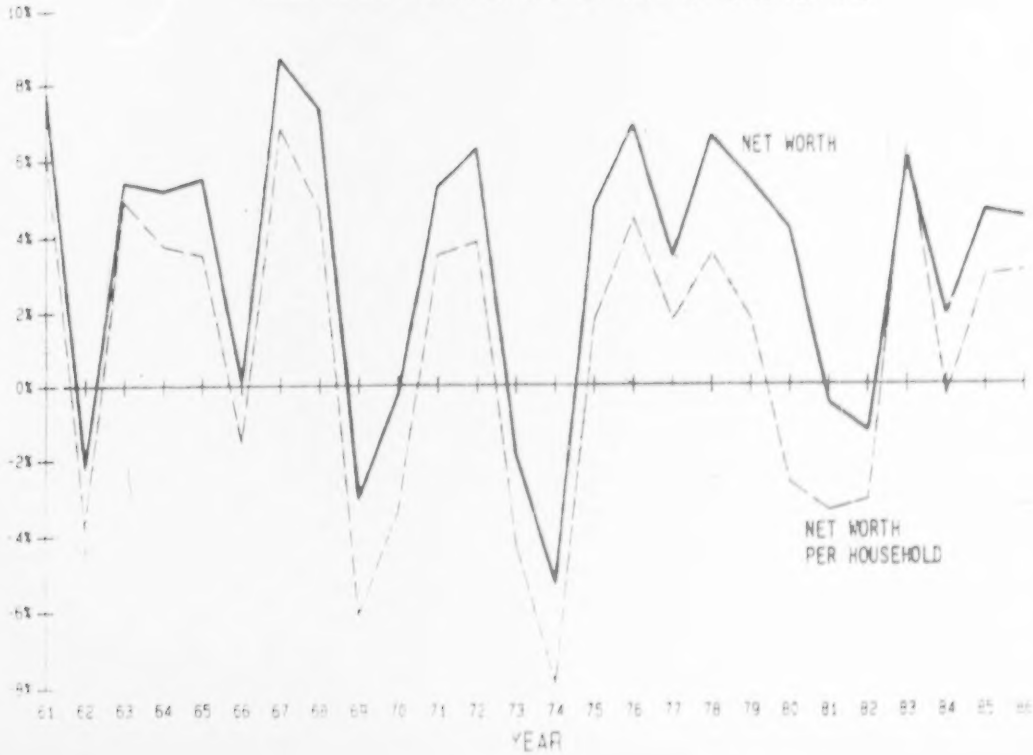


TABLE 5

RATIOS OF ASSETS TO TOTAL DEBTS[a]

Year	All Assets	Financial Assets							Tangible Assets		
		Total	Curr. Check	Save Depst	Bills Bonds	Stock Mutual	Pens. Life Ins	Non Corp Bus	Total	Home	Dur-ables
1961	8.73	6.15	0.29	0.74	0.63	2.03	0.78	1.62	2.57	2.60	2.92
1962	8.05	5.60	0.27	0.78	0.59	1.63	0.75	1.53	2.46	2.47	2.74
1963	7.82	5.52	0.26	0.79	0.54	1.73	0.74	1.42	2.30	2.30	2.58
1964	7.62	5.40	0.25	0.80	0.51	1.72	0.73	1.33	2.22	2.24	2.42
1965	7.50	5.37	0.25	0.80	0.48	1.77	0.73	1.28	2.14	2.16	2.29
1966	7.28	5.08	0.24	0.80	0.49	1.50	0.72	1.27	2.20	2.23	2.36
1967	7.56	5.35	0.25	0.84	0.48	1.76	0.74	1.23	2.20	2.23	2.46
1968	7.74	5.49	0.25	0.84	0.47	1.93	0.74	1.20	2.25	2.33	2.48
1969	7.36	5.07	0.23	0.80	0.52	1.56	0.72	1.17	2.30	2.37	2.50
1970	7.33	5.00	0.24	0.85	0.50	1.45	0.74	1.15	2.33	2.38	2.60
1971	7.37	5.04	0.24	0.90	0.45	1.52	0.75	1.13	2.33	2.44	2.49
1972	7.26	4.97	0.23	0.92	0.40	1.49	0.76	1.11	2.29	2.43	2.39
1973	6.83	4.49	0.23	0.91	0.40	1.03	0.70	1.17	2.33	2.51	2.31
1974	6.68	4.19	0.22	0.93	0.43	0.67	0.67	1.22	2.49	2.64	2.55
1975	7.02	4.49	0.21	0.97	0.42	0.81	0.76	1.26	2.53	2.63	2.71
1976	7.07	4.53	0.21	0.99	0.40	0.85	0.76	1.28	2.54	2.67	2.68
1977	6.77	4.23	0.20	0.95	0.38	0.69	0.71	1.25	2.54	2.72	2.57
1978	6.67	4.10	0.19	0.91	0.37	0.60	0.69	1.28	2.57	2.77	2.50
1979	6.68	4.14	0.19	0.87	0.38	0.63	0.69	1.32	2.55	2.74	2.49
1980	6.98	4.42	0.18	0.89	0.37	0.77	0.75	1.39	2.57	2.72	2.71
1981	6.99	4.39	0.19	0.93	0.38	0.68	0.74	1.42	2.60	2.78	2.75
1982	6.93	4.52	0.19	0.97	0.41	0.73	0.80	1.36	2.41	2.54	2.73
1983	6.87	4.47	0.19	0.95	0.42	0.76	0.83	1.27	2.40	2.61	2.54
1984	6.54	4.28	0.18	0.97	0.44	0.69	0.80	1.14	2.27	2.48	2.27
1985	6.28	4.20	0.17	0.91	0.46	0.79	0.81	0.99	2.08	2.30	2.09
1986*	6.36	4.30	0.18	0.90	0.44	0.93	0.85	0.95	2.07	2.28	2.07

*As of June 30, 1986.

[a]Ratios are for selected asset to total debt, except for last two columns. These columns give the ratio of owner-occupied homes to mortgage debt, and the ratio of the value of durable stocks to consumer credit.

TABLE 6

PERSONAL SAVINGS AND RETAIL SALES OF VEHICLES AND HOMES

Year	Personal Savings Rate (%)	Vehicles[a]			Homes[a]		
		Cars	Trucks	Total	New	Existing	Total
1961	6.6	5.8	0.7	6.5			
1962	6.6	7.1	0.8	7.9			
1963	5.9	7.7	0.9	8.6	0.6		
1964	7.0	8.2	1.1	9.3	0.6		
1965	7.0	9.3	1.2	10.5	0.6		
1966	6.8	9.1	1.3	10.4	0.5		
1967	8.0	8.4	1.2	9.6	0.5		
1968	7.0	9.6	1.5	11.1	0.5	1.6	2.1
1969	6.4	9.6	1.6	11.2	0.4	1.6	2.0
1970	8.1	8.4	1.5	9.9	0.5	1.6	2.1
1971	8.5	10.2	1.8	12.0	0.7	2.0	2.7
1972	7.3	10.9	2.2	13.1	0.7	2.3	3.0
1973	9.3	11.4	2.7	14.1	0.6	2.3	3.0
1974	9.3	8.8	2.3	11.1	0.5	2.3	2.8
1975	9.2	8.5	2.2	10.7	0.5	2.5	3.0
1976	7.7	10.0	2.9	12.9	0.6	3.1	3.7
1977	6.6	11.1	3.3	14.4	0.8	3.7	4.5
1978	7.1	11.2	3.7	14.9	0.8	4.0	4.8
1979	6.8	10.6	3.1	13.7	0.7	3.8	4.5
1980	7.1	9.0	2.2	11.2	0.5	3.0	3.5
1981	7.5	8.5	2.1	10.6	0.5	2.4	2.9
1982	6.8	8.0	2.4	10.4	0.4	2.0	2.4
1983	5.4	9.2	2.9	12.1	0.6	2.7	3.3
1984	6.3	10.4	3.8	14.2	0.6	2.9	3.5
1985	5.1	11.0	4.4	15.4	0.7	3.2	3.9
1986:1	5.0	10.7	4.1	14.8	0.8	3.3	4.1
1986:2	5.1	11.2	4.6	15.8	0.8	3.5	4.3
1986:3	2.9	13.2	5.3	18.5	0.7	3.6	4.3

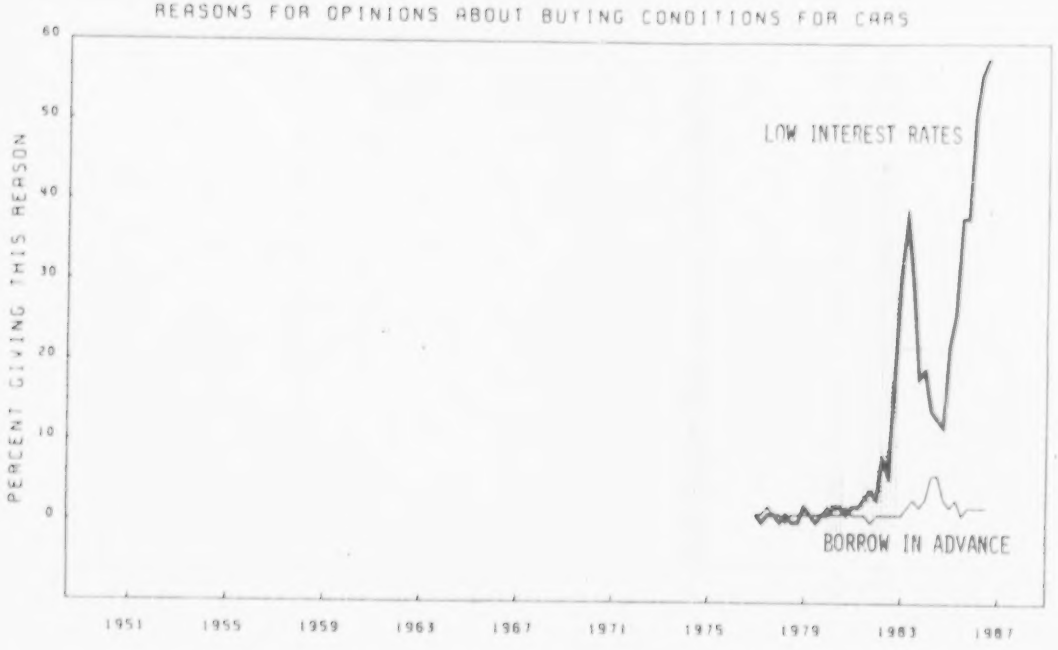
[a]Millions of units sold. Quarterly data at seasonally adjusted annual rates.

CHART 13

BUYING CONDITIONS FOR CARS

CHART 14

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR CARS



The questions were: "Speaking now of the automobile market--do you think the next 12 months or so will be a good time or a bad time to buy a car?" and "Why do you say so? (Are there any other reasons?)"

CHART 15

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR CARS

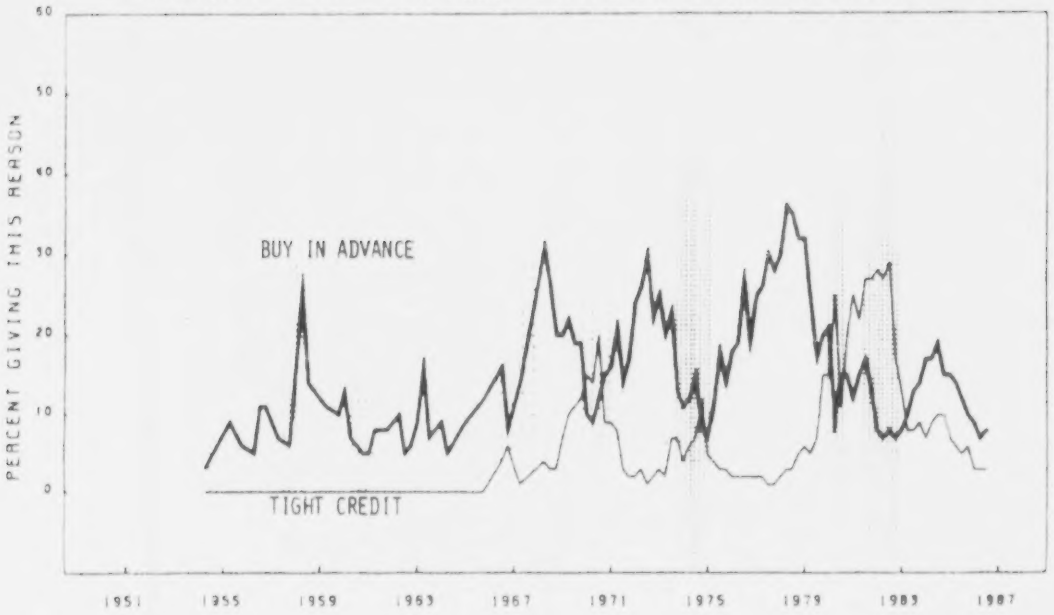


CHART 16

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR CARS

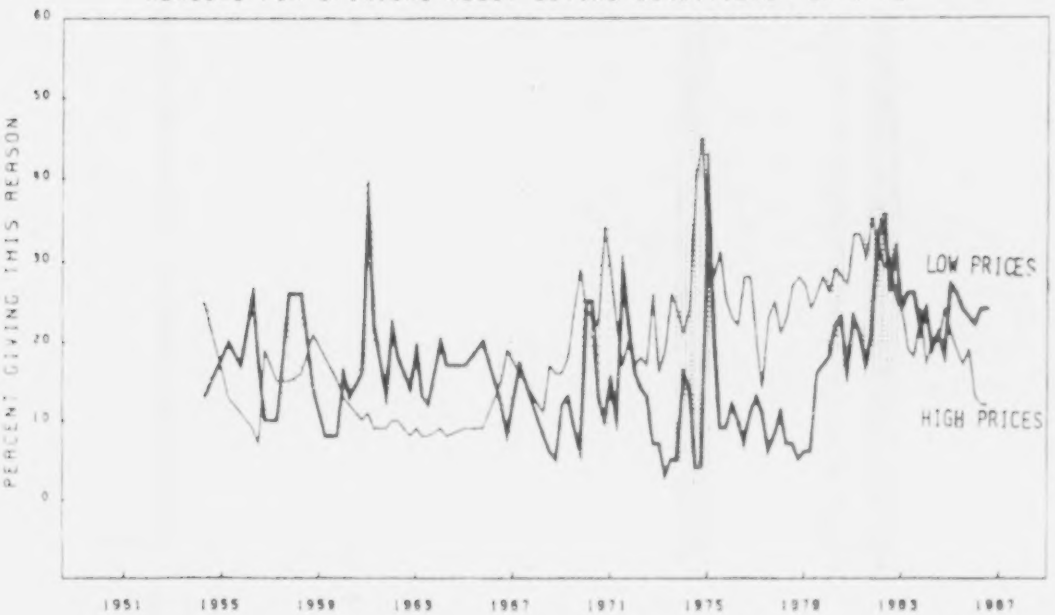


CHART 17

BUYING CONDITIONS FOR HOUSES

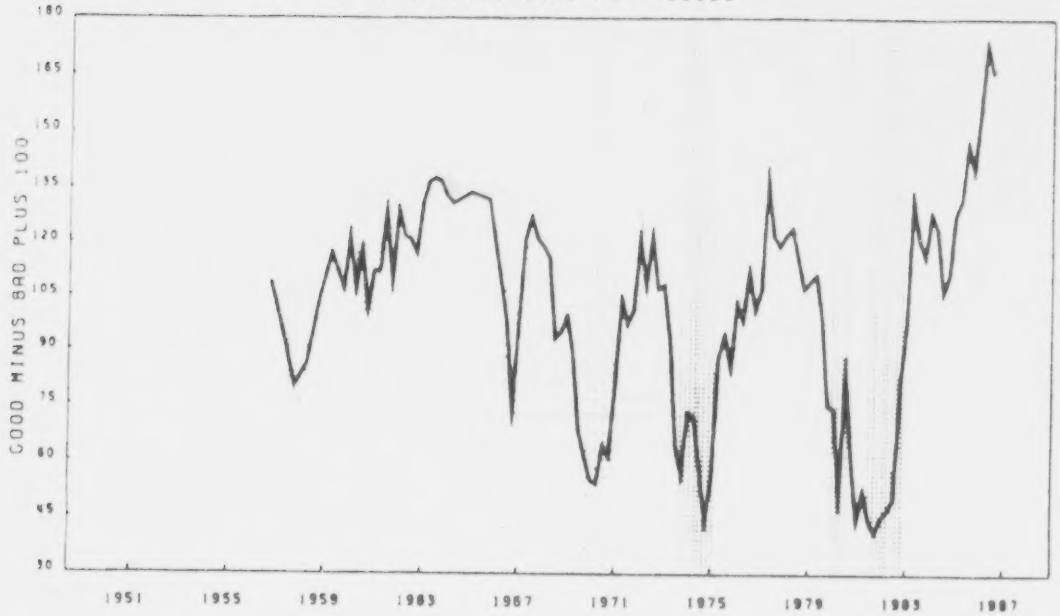
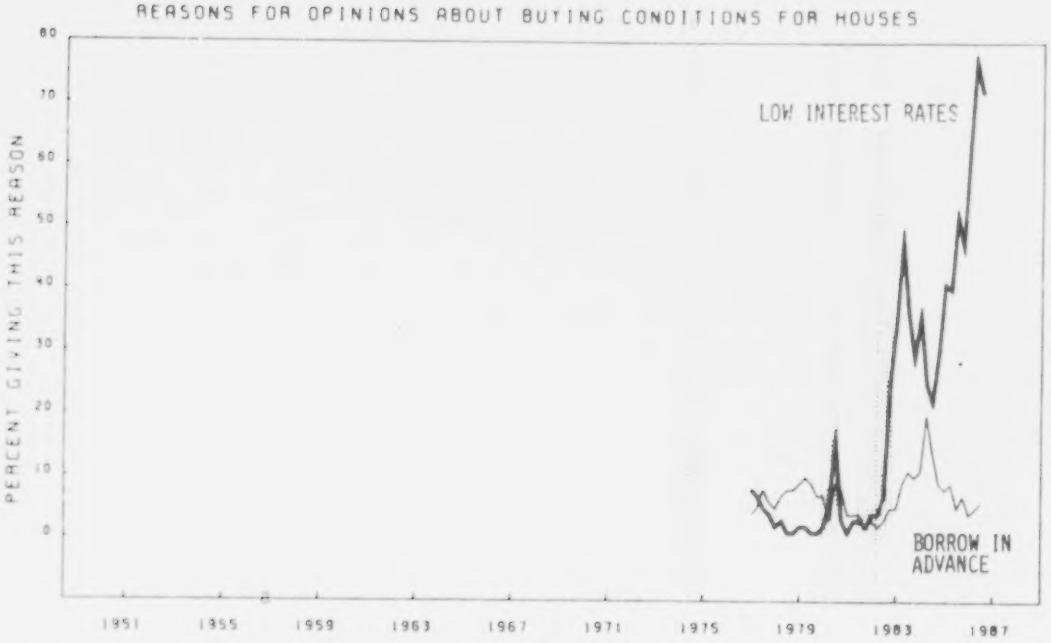


CHART 18

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR HOUSES



The questions were: "Generally speaking, do you think now is a good time or a bad time to buy a house" and "Why do you say so?"

CHART 19

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR HOUSES

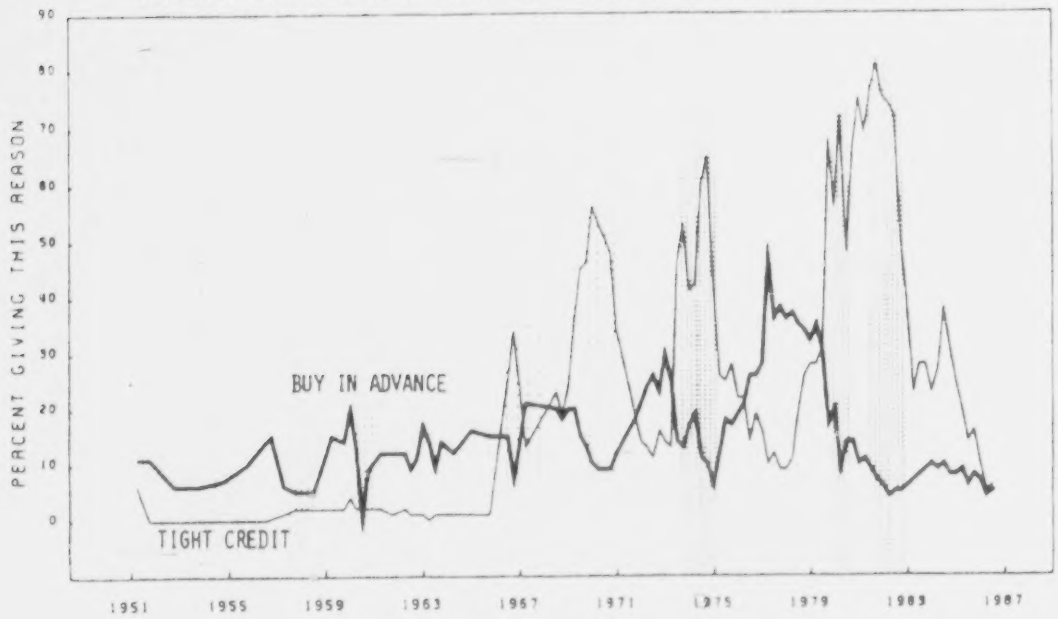


CHART 20

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR HOUSES

CHART 21

BUYING CONDITIONS FOR LARGE HOUSEHOLD GOODS

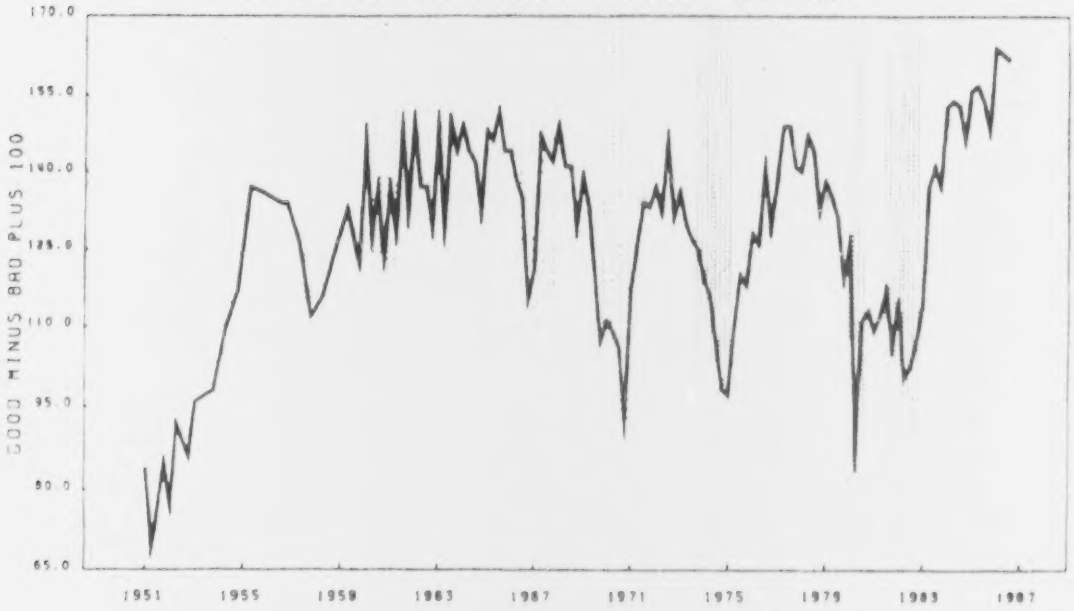
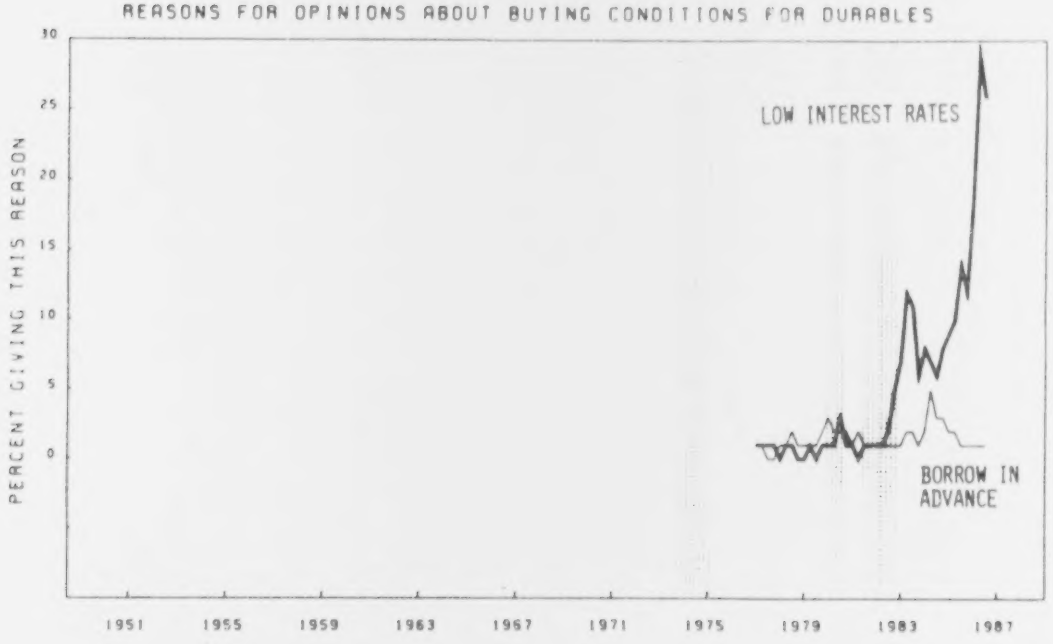


CHART 22

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR DURABLES



The questions were: "About the big things people buy for their homes--such as furniture, a refrigerator, stove, television, and things like that. Generally speaking, do you think now is a good time or a bad time for people to buy major household items" and "Why do you say so?"

CHART 23

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR DURABLES

CHART 24

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR DURABLES

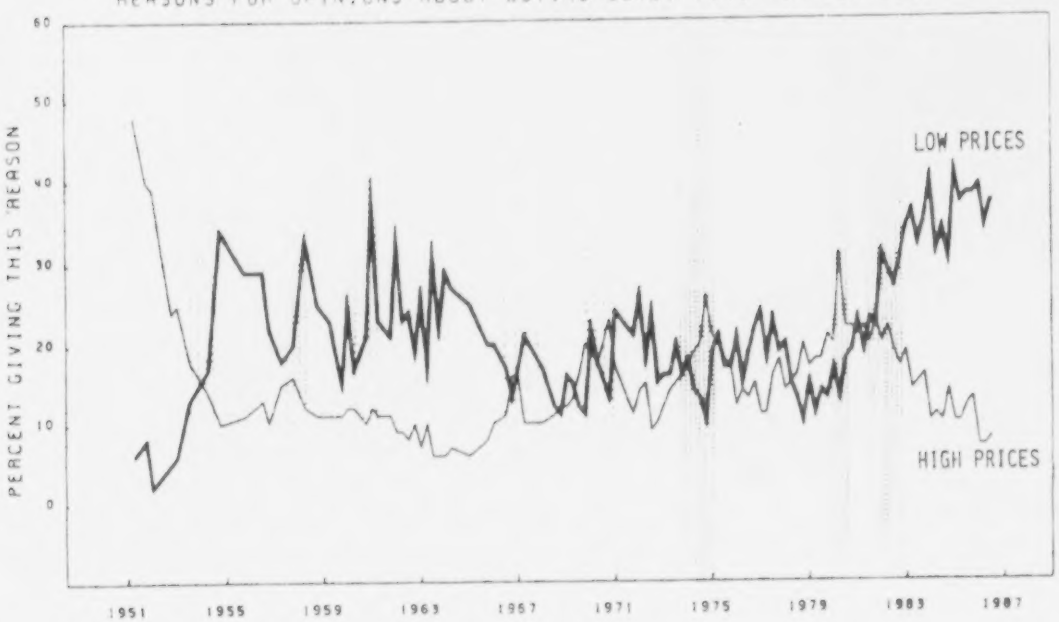


CHART 25

VEHICLE BUYING ATTITUDES AND VEHICLE SALES

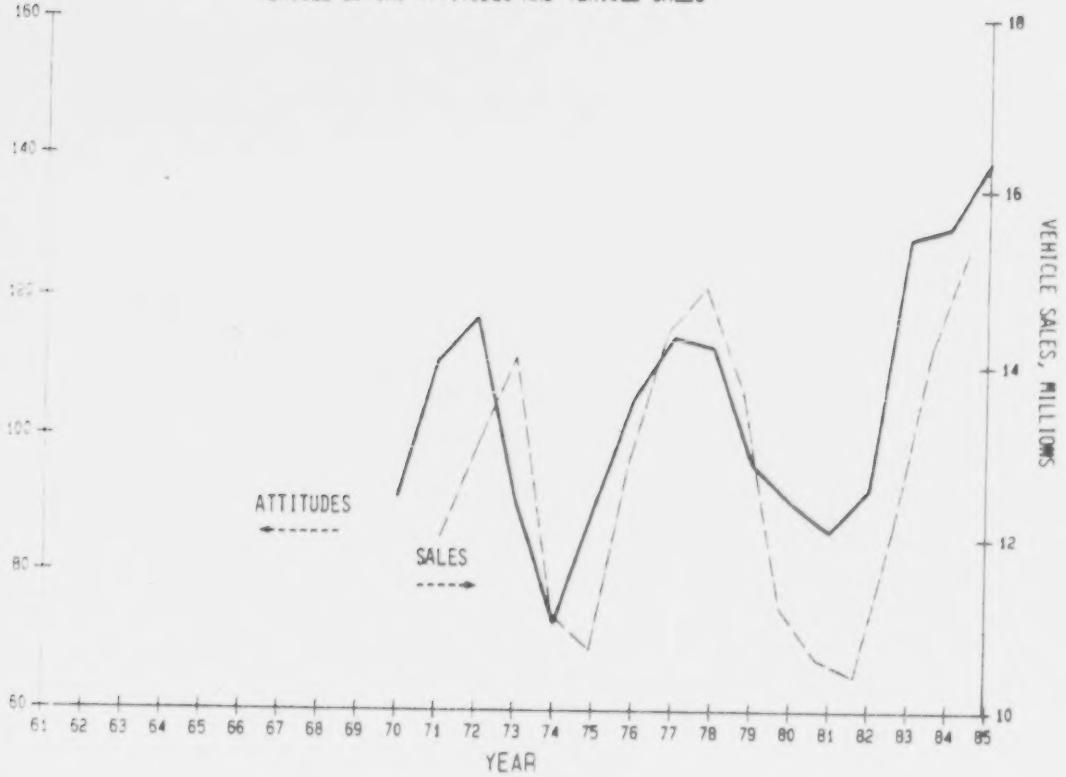


CHART 26

HOME BUYING ATTITUDES AND HOME SALES

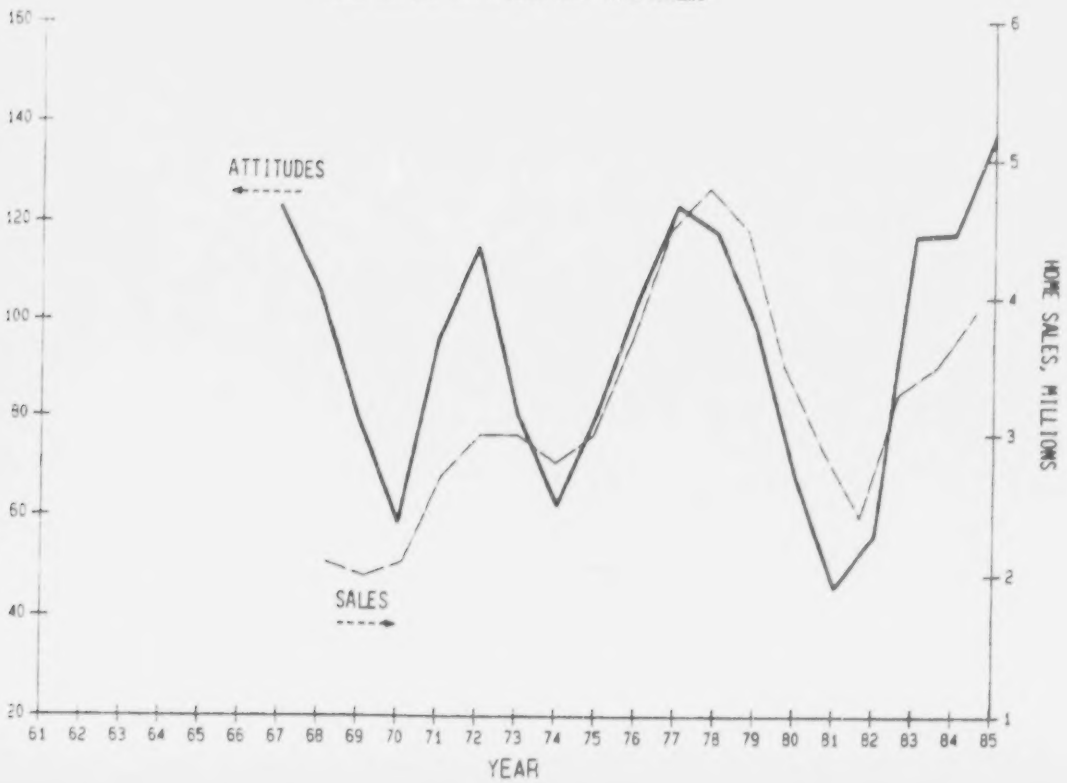
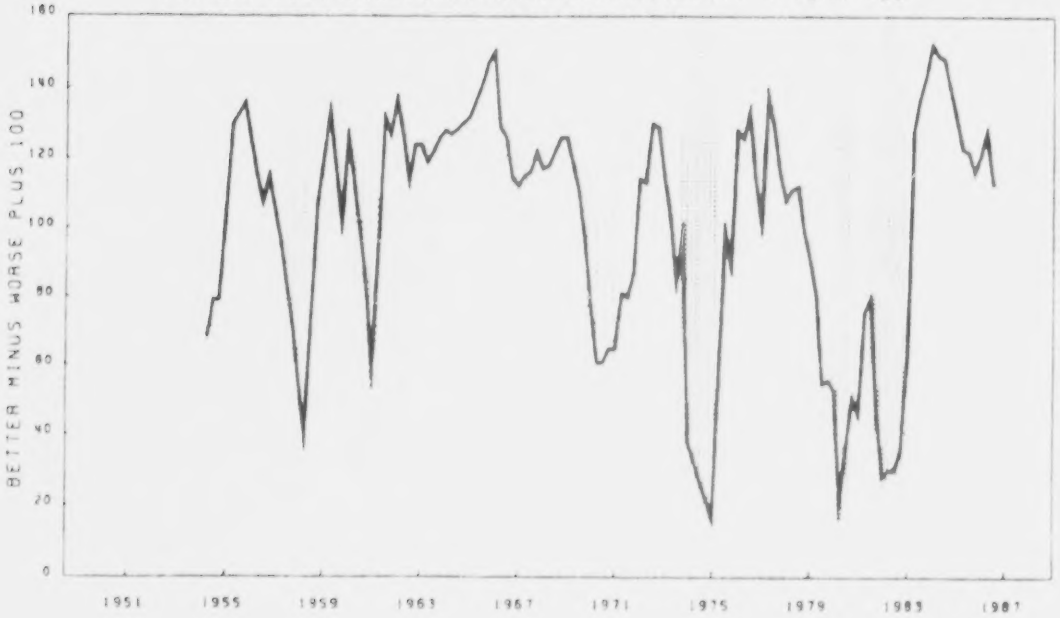


CHART 27

CURRENT BUSINESS CONDITIONS COMPARED WITH A YEAR AGO



The questions was: "Would you say that at the present time business conditions are better or worse than they were a year ago?"

CHART 28

EXPECTED CHANGE IN BUSINESS CONDITIONS IN A YEAR

The question was: "And how about a year from now, do you expect that in the country as a whole business conditions will be better, or worse than they are at present, or just about the same?"

CHART 29

BUSINESS CONDITIONS EXPECTED DURING THE NEXT TWELVE MONTHS

The question was: "Now turning to business conditions in the country as a whole--do you think that during the next 12 months we'll have good times financially, or bad times, or what?"

CHART 30

BUSINESS CONDITIONS EXPECTED FOR THE NEXT FIVE YEARS

The question was: "Looking ahead, which would you say is more likely--that in the country as a whole we'll have continuous good times during the next 5 years or so, or that we will have periods of widespread unemployment or depression, or what?"

CHART 31

EXPECTED CHANGE IN UNEMPLOYMENT

The question was: "How about people out of work during the coming 12 months--do you think that there will be more unemployment than now, about the same, or less?"

CHART 32

MEAN EXPECTED PRICE INCREASE OVER THE NEXT 12 MONTHS

The questions were: "During the next 12 months, do you think that prices in general will go up, or go down, or stay where they are now?" and "By about what percent do you expect prices go go (up/down) on the average, during the next 12 months?"

CHART 33

OPINIONS ABOUT THE GOVERNMENT'S ECONOMIC POLICY

The question was: "As to the economic policy of the government--I mean steps taken to fight inflation or unemployment--would you say the government is doing a good job, only fair, or a poor job?"